

## **CAREFIRST CONVERSION FREQUENTLY ASKED QUESTIONS**

### **Q: What is “CareFirst”?**

CareFirst, Inc., a Maryland nonprofit holding company, is the parent of the D.C., Maryland, and Delaware Blue Cross/Blue Shield nonprofit corporations that provide health insurance to individuals and groups. The D.C. Blue Cross/Blue Shield plan is officially known as Group Hospitalization and Medical Services, Inc. (“GHMSI”) and does business as Blue Cross/Blue Shield of the National Capital Area. GHMSI has subscribers in Maryland and Virginia as well as the District.

### **Q: What is being proposed?**

WellPoint Health Networks Inc., a for-profit California corporation in the business of providing health insurance products, has offered to acquire CareFirst for \$1.3 billion. On January 11, 2002 GHMSI formally filed an application with the District government for permission to convert from nonprofit to for-profit status and be acquired by WellPoint. A revised application was filed on August 19, 2002. Pursuant to a press release dated September 27, 2002, WellPoint has stated that the applicants are considering the issues that have been raised during the review process and are evaluating whether to file an amended application with regulators in Maryland, Delaware and the District.

### **Q: Who has to approve the proposed transaction?**

The transaction must be approved by the Insurance Commissioners of D.C., Maryland, and Delaware as well as the Attorney General of Delaware and the D.C. Corporation Counsel. Also, Congress will need to amend GHMSI’s congressional charter to authorize it to function in a for-profit capacity.

### **Q: What are “charitable assets” and why does GHMSI hold them?**

Charitable assets are assets that are irrevocably dedicated by law to a specific charitable purpose. Under D.C. law, because GHMSI is a nonprofit hospital and medical services corporation, the value of GHMSI is considered a charitable asset. GHMSI was chartered by Congress as a “charitable and benevolent institution” and has enjoyed very significant tax breaks in exchange for providing an open-enrollment health plan for the citizens of the affected community.

### **Q: What will happen to the charitable assets if CareFirst (and its D.C. affiliate GHMSI) converts to for-profit status?**

The entire amount paid by WellPoint to acquire CareFirst will be allocated among the affected jurisdictions. D.C. law requires that GHMSI’s share of the funds be placed in a charitable trust foundation that will use these funds for appropriate charitable purposes consistent with GHMSI’s “purposes or operation” in the District.

### **Q: What is the role of the D.C. Department of Insurance and Securities Regulation (“DISR”) in reviewing the proposed transaction?**

The primary role of the Commissioner of DISR is to review the proposed conversion and merger and acquisition for fairness, to verify that the resulting company will be financially viable, and to make sure

that the insurance-buying public will not be harmed. Please check DISR's website at <http://disr.dc.gov> for more information.

**Q: What expert assistance will the D.C. Department of Insurance and Securities Regulation have in reviewing the proposed transaction?**

The Commissioner of DISR will be assisted by outside legal counsel, outside financial advisors, actuaries, and health care consultants while it conducts its review of the proposed transaction. These consultants will be paid by WellPoint pursuant to D.C. law. Please check DISR's website at <http://disr.dc.gov> for more information.

**Q: What is the role of the Office of the Corporation Counsel in reviewing the proposed transaction?**

The primary role of the Corporation Counsel is to protect the charitable assets that will be transferred as a result of GHMSI's conversion to for-profit status by making sure that they have been properly valued and by seeing that those assets continue to be used in a charitable manner consistent with the law. For more information please check the Office of the Corporation Counsel's ("OCC") website at <http://occ.dc.gov> for more information.

**Q: What expert assistance will the Office of the Corporation Counsel have in reviewing the proposed transaction?**

OCC will be assisted by outside legal counsel and an outside investment banker to assess the value of GHMSI while it conducts its review of the proposed transaction. Additionally, OCC will be assisted by additional expert consultants specializing in the formation of charitable foundations and the examination of executive compensation. All of these consultants will be paid by WellPoint pursuant to D.C. law.

**Q: What is the role of the City Council in reviewing the proposed transaction?**

A recent amendment to D.C. law provides that any decision made by the Commissioner of DISR with regard to the proposed transaction will not take effect for 90 days. This 90-day period of time is intended to provide the City Council with sufficient time to review the proposed transaction and take whatever steps it deems necessary to protect the public's interest.

**Q: What is the role of the Mayor in reviewing the proposed transaction?**

Although the Mayor does not have a direct statutory role in reviewing the proposed transaction, both the Commissioner of DISR and the Corporation Counsel report to the Mayor and he therefore will oversee the duties they perform according to the law.

**Q: What is the ability of the public to participate in the District government's process?**

There have been and will be many avenues available for public participation in the District government's review of the proposed transaction. The public may review any of the non-confidential documents submitted to DISR and OCC by CareFirst, GHMSI, WellPoint and others. Both DISR and OCC will place relevant public information on their official websites from time to time. Members of the public may also provide their written comments on the proposed transaction to DISR and OCC. DISR held two public forum events this past May for the public to provide their comments on the proposed transaction and will schedule a public hearing on the application during the first half of 2003. OCC held public

forum events on September 24 and 26, 2002 and will schedule a public hearing on the application during the first half of 2003.

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